



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G 03-86
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
FARMERS NEW WORLD LIFE)	AND ORDER ADOPTING REPORT
INSURANCE COMPANY)	OF
A Domestic Insurer.)	FINANCIAL EXAMINATION

BACKGROUND

An examination of the financial condition of **FARMERS NEW WORLD LIFE INSURANCE COMPANY** (the Company) as of December 31, 2001, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on July 31, 2003. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 5 through 30 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **FARMERS NEW WORLD LIFE INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 6-12.

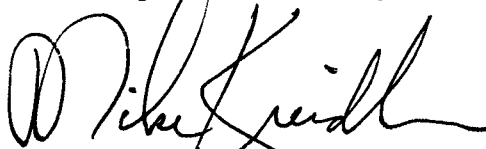
1. The Company is ordered to revise its procedures in compliance with RCW 48.13.340 which provides that no investment, sale or exchange shall be made by any domestic company unless authorized or approved in a timely manner by its Board of Directors or by a committee charged by the Board of Directors or the Bylaws with the duty of making such investment, sale or exchange. Instruction 1, Examination Report, page 6.
2. The Company is ordered to report to the Washington State Insurance Commissioner's Office within five days after declaring dividends and at least fifteen days before payment pursuant to RCW 48.31B.025(5)(a). Instruction 2, Examination Report, page 7.
3. The Company is ordered to file an amended annual registration statement which adequately discloses the terms and conditions of the verbal cost allocation and administrative service agreement pursuant to RCW 48.31B.025(2)(c)(v). Instruction 3, Examination Report, page 7.
4. The Company is ordered to dispose of all ineligible foreign securities in compliance with RCW 48.13.290 and to non-admit such securities in future regulatory filings. Instruction 4, Examination Report, page 8.

5. The Company is ordered to classify its investment in ZSLM Trust notes as an admitted asset in the Company's Annual Statement only until such time as the investment would qualify as admitted under Chapter 48.13RCW or December 15, 2004, whichever time first occurs, as permitted by Consent Order No. 100, dated September 30, 2003. Further, the Company is ordered to properly classify the ZSLM Trust notes in future regulatory filings. Instruction 5, Examination Report, page 9.
6. The Company is ordered to revise its Custodial Agreement with the Chase Manhattan Bank to require the same standards for both its primary and sub-custodians, or to eliminate the sub-custodian provision if not needed or used pursuant to RCW 48.13.455. Instruction 6, Examination Report, page 10.
7. The Company is instructed to non-admit unsecured loans to agents pursuant to RCW 48.12.020. Instruction 7, Examination Report, page 10.
8. Pursuant to RCW 48.05.073, the Company is ordered to non-admit all monies not received within 15 days on securities settlements that remain outstanding as of the date of filing its regulatory financial statements. Further, the Company is ordered in future filings to comply with SSAP 21, particularly when it involves a related party which is subject to the fair and reasonable standards of the holding company statutes. Instruction 8, Examination Report, page 11.
9. The Company is ordered to recognize month-end premiums for PAC (pre-authorized checks) when they are actually received in compliance with statutory accounting principles. Comments and Recommendations 1, Examination Report, page 11.
10. The Company is ordered to insist on the prompt payment of inter-company interest due in order to operate for its maximum legal advantage and to protect its solvency margin. Comments and Recommendations 2, Examination Report, page 11.
11. The Company is ordered to research Z ratings on Schedule D of its annual statement and determine the correct rating for the securities and recognize appropriate valuations for all securities on future Annual Statements in accordance with the NAIC's Annual Statement Instructions. Comments and Recommendations 3, Examination Report, page 12.

12. Pursuant to RCW 23B.03.020(g) and (l), it is ordered that the Board of Directors of FNWL consider taking a more active role in managing the Company in order to effectively exercise the powers of the Company to make contracts, establish officers' compensations, and oversee all important functions. Comments and Recommendations 4, Examination Report, page 12.
13. The Company is ordered to consider utilizing a more accurate method of estimating or determining its accrual of medical expenses. Comments and Recommendations, Examination Report, page 12.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 24th day of February, 2004.

A handwritten signature in black ink, appearing to read "Mike Kreidler", with a stylized, flowing script.

MIKE KREIDLER
Insurance Commissioner

September 4, 2003

MIKE KREIDLER
Washington Insurance Commissioner
5000 Capitol Blvd,
Tumwater, WA 98501

RECEIVED
SEP 05 2003
INSURANCE COMMISSIONER
COMPANY SUPERVISION

Dear Commissioner Kreidler:

The following is our response to the Report of Examination of Farmers New World Life Insurance Company as of December 31, 2001. We have responded to the instructions and the comments and recommendations.

INSTRUCTIONS

1. Authorization of Investments

Instruction:

The Company is instructed to revise its procedures to comply with RCW 48.13.340 which provides that no investment, sale or exchange shall be made by any domestic company unless authorized or approved in a timely manner by its Board of Directors or by a committee charged by the Board of Directors or the Bylaws with the duty of making such investment, sale or exchange.

Company Response:

The Company submitted the investment reports for March 1, 2000 through December 31, 2000 to the Board of Directors at the June 7, 2001 meeting. This was the first meeting of the Board of Directors scheduled subsequent to the time frame of the investment reports. The Company has since implemented a schedule of a minimum of three scheduled board meetings per year. All investment reports are submitted to the Board of Directors for approval at the first available meeting scheduled following the date of the reports.

2. Notification of Dividends

Instruction:

The Company is instructed pursuant to RCW 48.31B.025(5)(a) to report to the Washington State Insurance Commissioner's Office within five days after declaring dividends and at least fifteen days before payment. The Company indicates that procedures are now in place to comply with this statute.

Company Response:

The Company has followed procedures and been in compliance with extra-ordinary dividend distributions. The Company has since updated procedures to provide advance notification of ordinary dividend distributions, per RCW 48.31B.025(5)(a). The Company has fully disclosed the ordinary dividend distribution to regulators in its financial statements, notes to the financial statements, and Holding Company Form B filing (under the Dividend and Other Distribution Section).

3. Intercompany Cost Allocation Agreement

Instruction:

Since a cost allocation agreement is essential in order to provide supportable, equitable allocation of costs, pursuant to RCW 48.31B.030(1)(b)(iv), the Company is instructed to submit to the Washington State Insurance Commissioner's Office for approval a written cost allocation service agreement with Farmers Group, Inc., which complies with RCW 48.31B.030(1)(a).

Company Response:

The Company has a Cost Allocation Agreement that has been in force for many years with its parent company. This agreement has remained very favorable to the Company as is demonstrated by the Company's very favorable expense ratios as compared to industry standards. The DOI has been aware for many years that this is a verbal agreement and that it predates the implementation of the Washington Insurer Holding Company Act. The Company is unaware of any authority in the Act that requires an insurer and its parent to terminate valid and binding existing agreements.

Attached is a copy of a June 11, 2003 letter to the Department from the Company's counsel setting forth the Company's legal position and confirming the Company's willingness to be cooperative. The Company intends to request a meeting with the Department following up on this issue and to demonstrate that it maintains adequate records reflecting supportable, equitable allocation of costs. The Company has noticed that due to clerical oversight it did not list the verbal Cost Allocation Agreement on Form B. The Company is filing a restated Form B for the past two years to rectify this clerical oversight.

4. Investments in Foreign Securities

Instruction:

The Company is instructed to dispose of all ineligible foreign securities in compliance with the provisions of RCW 48.13.290 or to non-admit such securities in future regulatory filings.

Company Response:

Effective July 27, 2003, RCW 48.13.180(2) was amended to allow for investment in obligations of foreign governments or foreign corporations in an aggregate amount not exceeding 10% of assets. The Company is in compliance with the amended statute.

5. ZSLM Trust Notes

Instruction:

Since the ZSLM Trust notes are not issued, assumed, or guaranteed by an identity with sufficient earnings history as required by RCW 48.13.050, the Company is instructed to classify the notes as non-admitted assets in the Company's Annual Statement until such time as they would qualify as admitted. Further, the notes do not meet the criteria for NAIC PE status and therefore only qualify for investments as "obligations rated by the securities valuation office" under RCW 48.13.275.

The Company is instructed to properly classify the ZSLM Trust notes in future regulatory filings pursuant to RCW 48.13.275.

In addition, the underlying investment vehicle supporting the notes is an offshore limited liability company of Great Britain. This constituted an ineligible foreign investment under RCW 48.13.180 at the time of purchase. Therefore, in accordance with RCW 48.13.290, the Company is instructed to dispose of these notes in compliance with the provisions of RCW 48.13.290, or to treat them as non-admitted as required in all future regulatory filings.

Company Response:

The ZSLM Trust Notes (the "Notes") do qualify as admitted assets under the Washington Insurance Code. The Company has been working closely with Washington State's Investment Specialist to address the State's concerns over the Company's investment in the Notes.

Standard & Poors' Corporation rated the Notes AA at the time of issuance. This rating was based on the excellent credit rating of Morgan Guaranty Trust Company of New York ("Morgan Guaranty"), an affiliate of J.P. Morgan, the counterparty/obligor on the swap, which essentially guarantees the principal and interest payments to the Company as the holder of the Notes. Thus, the Company was purchasing investment grade corporate obligations based on a Morgan Guaranty credit. Such an acquisition is consistent with the Company's long-standing conservative investment guidelines.

In categorizing the Notes for annual statement purposes, the Company was relying on RCW Section 48.13.050 alone as authority for the Company to invest in corporate obligations. The net earnings provisions do not expressly state that the issuing entity must have been in existence for the preceding five years. In this instance, the Issuer of the Notes was not in existence for that time period; as such, the Issuer could not technically meet such a requirement. However, the Company has located no express provision of the Washington Investment Code that limits Washington-domiciled insurers to investing in securities of issuers that have been in existence for five fiscal years or more.

Nonetheless, the Company continues to believe the Notes qualify under the requirements of RCW Section 48.13.050, because the swap counterparty, Morgan Guaranty, is clearly a domestic entity with five years of qualifying earnings, and the swap, as a total return swap, essentially acts as a

guaranty of the payments under the Notes. In fact, in rating the Notes, Standard & Poors relied on Morgan Guaranty as the significant credit behind the Notes, and the AA rating assigned to the Notes was based upon the credit rating of Morgan Guaranty.

The Company confirms that the \$110,000,000 investment in the Notes was not submitted to the SVO for review and a rating at the time the Notes were purchased in October 2001. As noted above, this investment was AA rated at the time. Although the Company did not file the Notes with the SVO, it applied the equivalency guidelines set forth in the SVO Manual, and has always reported the Notes in this regard. The Company also notes that there are currently initiatives underway (in addition to the "provisionally exempt" concepts which currently exist under the SVO's Purposes and Procedures Manual (the "SVO Manual")) to revise the filing procedures to eliminate filing and SVO review of securities rated and monitored by NRSROs. The Company is not aware of any express statutory requirement mandating non-admission or disposition of a security under these circumstances.

RCW 48.13.180 is not applicable. The Company notes that the issuer of the Notes is a Delaware entity. The Company is not aware of any provision in the Washington Insurance Code that requires the Company to look beyond the domicile of the issuer. The ZSLM swap arrangements, which are structured to provide for payment of all obligations under the Notes, including both principal and interest, regardless of the cash flows actually received by Morgan Guaranty, function as a guaranty of the Notes. Morgan Guaranty is a well-known, highly-rated and long-established U.S. domiciled company.

Given these facts, the Company believes the Notes qualify as an admitted asset.

The Company held a conference call on August 21, 2003 with Washington State's Investment Specialist. Progress toward eliminating the State's concerns over the Notes, as well as progress toward agreement on the admissibility of the Notes, was made during the call. The Company agreed to provide Washington State's Investment Specialist with further explanation of the "substance over form" distinctions regarding guarantees in capital markets. This explanation will be submitted to the State by the Company's external counsel, Sidley, Austin, Brown & Wood, and will enhance the Investment Specialist's understanding of the guarantee of principal and interest payments on the Notes, provided by the total return swap between Morgan Guaranty and the issuer. Furthermore, it will provide additional evidence on the admissibility of the Notes under RCW 48.13.050. Those documents are attached along with this response. The Company will also submit the Notes for rating by the SVO.

6. Global Custody Rider

Instruction:

The Company is instructed to revise its Custodial Agreement with the Bank (i.e. Chase Manhattan Bank) to require the same standards pursuant to RCW 48.13.455 for both its primary and sub-custodians, or to eliminate the sub-custodian provision if not needed or used.

Company Response:

The Company has revised the Global Custody Rider to its Custodial Agreement with JPMorgan Chase Bank (formerly known as Chase Manhattan Bank) to require the same standards pursuant to RCW 48.13.455 for both its primary and sub-custodians. See attached copy of revised Global Custody Rider.

7. Loans to Agents

Instruction:

Since the Company's loans to its agents are not secured by collateral, pursuant to RCW 48.12.020, the Company is instructed to non-admit unsecured loans to agents and to avoid making any unsecured loans to agents in the future. Due to immateriality, no examination adjustment was made to the report.

Company Response:

The item in question represents advances to District Managers. It is the Company's position that advances to district managers are secured. The Company has a captive agency management system and collectibility is certain. District managers' commissions are impounded and collected across all lines of business enabling the Company to collect life advances from commissions owed to the district managers from non-life sales. The Company has a history of 100% collection of these advances. SSAP No. 6, "Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers", states that amounts due from agents meet the definition of an asset as defined in SSAP No. 4, "Assets & Non-admitted Assets", if not over ninety days and secure.

RCW 48.12.020(3), "Non-allowable Assets", refers to advances to officers whether secured or unsecured and advances to employees, agents, and other persons on personal security only. The advances to district managers are in support of their business and are not of a personal nature.

8. Surplus Notes:

Instruction:

Pursuant to RCW 48.05.073, the Company is instructed to non-admit all monies not received on securities settlements over 15 days that remain outstanding as of the date of filing its regulatory financial statements. Non-admission of these monies was not deemed necessary because of the subsequent receipt and settlement, although the Company is instructed in future filings to comply with SSAP 21, particularly when it involves a related party which is subject to the fair and reasonable standards of the holding company statutes.

Company Response:

The Company received payment in full from the maturity of the surplus note on January 18, 2002. Since this transaction was settled well in advance of the March 1, 2002 filing date for the 2001 Annual Statement, it was appropriate to treat the surplus note as an admitted asset.

It is the policy of the Company to insist upon timely payment on all of our investments. If payment is delayed, the Company pursues appropriate compensation for the loss of use of the funds. In this case, the Company received interest on the \$119,000,000, per the terms of the surplus note, for the period of October 1, 2001 through January 18, 2002.

It is the company's policy to comply with SSAP 21.

9. Policy Reserves Change

Instruction (as revised by Washington OIC):

The Company is instructed to record any future such reserve changes directly to the unassigned funds (surplus) and to appropriately disclose those in the Annual Statement pursuant to RCW 48.05.073 and Washington Administrative Code (WAC) 284-07-050(2) which states, in part, "...insurers shall adhere to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC."

Company Response:

The Company agrees that SSAP 51 directs the insurer to report material reserve increases or decreases due to a change in valuation basis directly to surplus through Exhibit 8A (2001).

It is the Company's position, however that the change in the reserve valuation process for Farmers' Flexible Universal Life (FFUL) product from a mainframe system to a PC-based vendor supplied system did not constitute a "change in basis of valuation". Based on history and SSAP 51, the company views a change in valuation basis to involve a change in valuation assumptions (mortality table, interest rate, etc.) and/or a change in valuation method (net level, CRVM, etc.). Neither the valuation assumptions nor the valuation method were changed when the FFUL valuations were transferred to the PC based system.

In addition, because the change resulting from the switch in valuation systems was not material, the company maintains that even if this had been a change in valuation basis, it was not necessary to record the change in Exhibit 8A. Paragraph 48 of the Preamble to the NAIC Accounting Procedures and Practices Manual includes the following statement regarding materiality:

The essence of the materiality concept is clear. The omission or misstatement of an item in a statutory financial statement is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the statutory financial statement would have been changed or influenced by the inclusion or correction of the item.

The preamble further states in paragraph 49 that, "The provisions of this manual need not be applied to immaterial items."

In recent discussions with Michael Jordan, Senior Insurance Examiner, and Alexis Santos, Associate Actuary, it was agreed that the impact of the change in reserve valuation systems for the Company's FFUL product was not material, and that this matter should be dealt with as an off-report issue. Our most recent discussion with the Washington DOI staff indicated that this instruction would be removed from the final report.

Farmers New World Life actuarial management will review material reserve changes resulting from future valuation systems conversions to ensure appropriate handling and disclosure in the Annual Statement in consideration of this recommendation

COMMENTS AND RECOMMENDATIONS

1. SAP (Statutory Accounting Principles) Cash Adjustment

Comment/Recommendation:

Since this procedure constitutes advance recognition of assets and revenues, which are subject to possible cancellation, it is recommended that the Company recognize premiums when they are actually received.

Company Response:

The Company believes it's appropriate to recognize premiums and cash given our acceptance of the insurance risk and the daily collectibility of cash deposited through Automated Clearing House (ACH) processing.

As part of the nightly policy administration system cycle, the system identifies all policies on Bank Check Plan (BCP) mode that have the following characteristics: (1) the paid-to-date is equal to or less than the cycle date and/or (2) the anniversary date is equal to or less than the cycle date.

For these policies the system will: (1) generate an overnight BCP extract which is sent to banks or credit unions, update the paid-to-date, and (2) generate accounting (credit premium and debit suspense). The bank credits the Company's bank account the same night the extract is run. The accounting adjustment clears that day's suspense activity to account for the ACH drafts. This is consistent with our accounting treatment in prior years.

2. Certificate of Contribution – Interest

Comment/Recommendation:

Since the Company is obligated to operate for its maximum legal advantage and to protect its solvency margin, it is recommended the Company insist on the prompt payment of intercompany interest due.

Response:

The Company pursues payment of interest on the due date. In this case, payment was delayed pending California Department of Insurance approval of the interest payment, which is required by the terms of the certificates. Payment was received promptly after the California Department of Insurance issued its approval on March 7, 2002.

3. SVO Ratings

Comment/Recommendation:

It is recommended the Company research Z ratings on Schedule D and determine the correct rating for the securities and should also recognize appropriate valuations for all securities on future Annual Statements in accordance with the Annual Statement instructions. In reviewing the 2002 Annual Statement it was noted that the Company had researched and rated the Z bonds as well as adjusted the value of an impaired security.

Response:

The Company has procedures in place to ensure that Schedule D is completed in accordance with Annual Statement instructions.

4. Board of Directors Role in Company

Comment/Recommendation:

Since RCW 23B.03.020(g) and (l) empower the Company to make contracts and establish officers' compensation, and since the Company Board should oversee all important functions, it is recommended that the Board of Directors of FNWL take a more active role in managing the Company in order to effectively exercise those powers.

Company Response:

The Board of Directors of FNWL takes an active role in managing the Company. The Board elects officers of the Company, appoints members of the Audit Committee, etc. The Board also reviews and approves all investment activity, interest rate resolutions, reports of various Officers of the Company, etc.

5. Accrual of Medical Expenses

Comment/Recommendation:

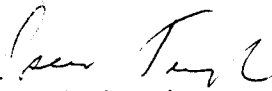
This amount was deemed immaterial for our examination, but all liabilities should be recorded as accurately as possible in order to give a true picture of the Company's surplus position. Therefore it is recommended the Company utilize a more accurate method of determining this accrual.

Company Response:

The Company has reviewed the method to determine the Medical Expenses Accrual. The Company will update procedures to more accurately reflect the liability as of the end of the reporting period.

We believe this response adequately addresses the Report of Examination and should close your file on this examination.

Sincerely,

A handwritten signature in dark ink, appearing to read "Oscar C. Tengio", is written above the printed name.

Oscar C. Tengio
Chief Financial Officer



FARMERS

FARMERS INSURANCE EXCHANGE
TRUCK INSURANCE EXCHANGE
FIRE INSURANCE EXCHANGE
MID-CENTURY INSURANCE COMPANY
FARMERS NEW WORLD LIFE INSURANCE COMPANY

Office of General Counsel

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(323)-964-8093 Facsimile

June 11, 2003

Mr. Patrick McNaughton, Chief Examiner
Office of Insurance Commissioner
Post Office Box 40259
Olympia, WA 98504-0259

Re: Proposed Instruction Pursuant to WA Insurer Holding Company Act Section 48.31B.030

Dear Mr. McNaughton:

This will follow-up on conversations between Michael Jordan and Leeann Badgett relevant to the recent examination of Farmers New World Life Insurance Company (FNWL). We appreciate the opportunity to discuss this subject further with you.

First let me say that we take comments by the Washington Insurance Department very seriously and trust that you realize FNWL values the excellent working relationship we have enjoyed with your Department. While it is natural that we may sometimes have a slightly different view on certain subjects, we have always sought to be cooperative. It is in that spirit of cooperation that we send this letter. We wish to share with you our view of this subject and propose a resolution which hopefully will be satisfactory to the Department.

We have closely reviewed the Department's proposed instruction which reads as follows:

"The company is instructed pursuant to RCW 48.31B.030(1)(b)(iv) to submit for approval to the Washington Insurance Commissioner's Office a cost allocation service agreement with Farmers Group, Inc. which complies with RCW 48.31B.030(1)(a)."

We have the following initial comments/questions:

1. It is commonly understood that valid and binding agreements can be entered into either verbally or in writing. Both verbal and written contracts are enforced by Courts routinely every day.
2. We have thoroughly reviewed the statutes cited in the proposed instruction and do not see any requirement therein that an agreement must be in writing. Is your Legal Department citing some other authority for the requirement of a "written" service agreement? If there is

INSTR # 3

some specific legal authority for this, we would appreciate receiving the citation so we may review it.

3. The Legislature in passing these laws originally had the opportunity to prohibit verbal agreements. Our review indicates they did not do so.
4. The Department has examined FNWL a number of times since this Holding Company Act was passed. We do not recall anyone previously commenting that a verbal service agreement was prohibited. The Department in fact for a long period of time has been aware that such a verbal agreement exists.
5. Perhaps a very major point which needs further consideration is that this verbal agreement was entered into long before the Holding Company Act was passed. We again have reviewed the Act and see nothing in it which required insurers to terminate existing agreements, whether such agreements were verbal or in writing, and to then submit new agreements to the commissioner for review.
6. The proposed instruction cites "pursuant to RCW 48.31.B.030(1)(b)(IV)". That code section clearly indicates that "management agreements", "service contracts" and "cost-sharing agreements" "may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction and the commissioner declares the notice to be sufficient at least sixty days before, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period". FNWL would of course make such a filing if it were planning to enter into such an agreement. However, there are no current plans to enter into such an agreement. Such an agreement already exists and in fact existed long before this law was ever enacted. There is no "transaction" or "agreement" currently under consideration which would qualify as needing submission under RCW 48.31.B.030(1)(b)(iv).
7. "Management agreements", "service contracts" and "cost-sharing agreements" obviously require the agreement of two parties. As the Department is aware, there exists a verbal agreement between FNWL and Farmers Group, Inc., which agreement has existed since the early 1950's when Farmers Group, Inc. first acquired FNWL. Discussions have been had with management personnel of both companies with regard to this subject. In particular, it has been discussed that simply following the proposed instruction that a written cost allocation service agreement be entered into would, of necessity, require the termination of the existing verbal agreement. Neither FNWL nor Farmers Group, Inc. has indicated an inclination to terminate the existing verbal agreement. In fact, both parties have observed that the agreement is valid, in place and has served both companies well for these many years. We are not aware of any authority the Department has to require the termination of a perfectly valid and binding agreement between these companies.
8. Just above the actual instruction, the Department has used the following language:

“To date, the Company has not implemented a written service agreement to cover cost allocations of overhead expenses such as legal, investment and other services. These services performed by Farmers Group, Inc. are required to be “fair and reasonable” as to terms and charges, pursuant to RCW 48.31B.030(1)(a)(i) & (ii). In addition, RCW 48.31B.030(1)(a)(iii) & (IV), requires that expenses incurred and payments received must be allocated to the insurer in conformity with customary insurance accounting practices consistently applied and the books, accounts, and records of each party to all such transactions must be maintained to clearly and accurately disclose the nature and details of the transactions and to support the reasonableness of the charges or fees. Fair and reasonable is interpreted by the Commissioner to encompass only the reimbursement of costs, without any profit element.

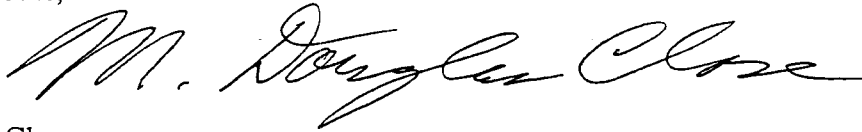
Arguably an agreement entered into prior to the enactment of the Washington Insurer Holding Company Act would not need to comply with the above-referenced standards as set forth in RCW 48.31B.030. Nonetheless, we are pleased to advise that the verbal agreement does meet those standards. In particular, the terms are fair and reasonable, the charges or fees for services performed are fair and reasonable and the expenses incurred and payment received are allocated to FNWL in conformity with customary insurance accounting practices consistently applied. The books, accounts, and records are also maintained in a clear and accurate manner. This letter will also confirm that the reimbursement of costs are done so without an additional profit element.

9. As stated previously, it is the intention of FNWL to be cooperative with the Department. We believe we understand the original purposes for the legislature passing the Holding Company Act. We are also cognizant of the legitimate concerns of regulators related to inter-company transactions. Accordingly, although we believe the examiners have already reviewed the books, accounts and records that establish that the inter-company terms and charges are fair and reasonable, FNWL is most willing to sit down with examiners to go over the charges. We are confident that the charges would meet the standards set forth in the Act. Further, this letter will serve as FNWL’s commitment to notify the Commissioner in accordance with the Act should there subsequently be an intention to include any profit element in the reimbursement of costs.
10. Finally, in addition to our offer to further go over our books, accounts and records with the examiners, the Company would be willing to send the Department, on an informational basis only, a memorandum outlining the usual and customary cost allocations. We are quite confident that the Department would conclude that there is nothing unusual in these cost allocations and that in fact they are all fair and reasonable. We sincerely wish to cooperate with the Department so it may conclude there is nothing unusual in the inter-company cost allocations which would be of concern to the Department.

We hope the foregoing comments are helpful in clarifying this matter. We trust they will be received in the intended spirit of cooperation but with the understanding that we do not wish to disturb an underlying agreement which has served FNWL well for many years.

Thank you for your attention to this matter. We look forward to hearing from you in the near future.

Very truly yours,

A handwritten signature in cursive script, reading "M. Douglas Close".

M. Douglas Close
Vice President and General Counsel
Farmers New World Life Insurance Company

Cc: Leeann Badgett, Director of Financial Reporting - FNWL
C. Paul Patsis, President - FNWL
Oscar Tengio, Chief Financial Officer - FNWL

Mr. Michael Jordan, Senior Insurance Examiner
Office of the Insurance Commissioner
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Olympia, WA 98504-0259

SIDLEY AUSTIN BROWN & WOOD LLP

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August 28, 2003

Mr. Timothy Hays, CPA, JD
Investment Specialist
Washington Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

Re: Farmers New World Life Insurance Company \$110,000,000
Investment in \$330,000,000 Principal Amount of ZSLM 2000-A Trust
("ZSLM Trust") Notes Originally Issued December 19, 2000

Dear Mr. Hays:

In response to your June 23, 2003 letter addressed to James DeNicholas, and as a follow-up to our telephone conference call on Thursday, August 21st, we are providing additional information and comments with regard to Farmers New World Life Insurance Company's ("Farmers") investment in and categorization of the above-captioned ZSLM 2000-A Notes (the "Notes"). Specifically, we are responding to Discussion Item C on pages 3 through 5 of your letter and to the related comments in the draft financial examination report's conclusions regarding the Notes. The subject issue relates to RCW 48.13.050(1) and, in particular, the interpretation of the word "guaranteeing" as used in that statute.

First, we note that RCW 48.13.050(1) refers to "obligations which are secured by adequate collateral and bear interest at a fixed rate," and to certain earnings tests of the "issuing, assuming, or guaranteeing institution." As you know, principal and interest payments on the Notes are funded through a total return swap agreement (the "MGT TR Swap") with Morgan Guaranty Trust Company of New York ("Morgan Guaranty") and we understand that Morgan Guaranty clearly would meet the earnings tests of RCW 48.13.050(1). However, you have expressed your view that the term "guaranteeing institution" only contemplates an institution that has issued an absolute and unconditional "guarantee" of the obligations in question. We have posited, alternatively, that the form of the instrument issued by the "guaranteeing institution" need not, and should not, be so narrowly interpreted and can encompass a variety of contractual mechanisms, including total return swap agreements. This interpretation is appropriate because total return swaps like the MGT TR Swap operate to guarantee the principal and interest

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payments by providing a stream of payments to the Indenture Trustee for the holders of Notes, which payments fund, dollar-for-dollar, the principal and interest on the Notes, even in circumstances where the issuer of the Notes has become insolvent and cannot fulfill its obligations to Morgan Guaranty under the MGT TR Swap.

Within the capital markets, various forms of credit support or enhancement (e.g., financial guaranty insurance, surety bonds, letters of credit, support agreements, corporate guaranties, etc.) can be used to provide the type of collateral security contemplated by RCW 48.13.050. In fact, having participated in the NAIC Invested Assets and Model Investment Law Working Groups during the years when the NAIC Model Investment Law (Defined Limits Version) was being drafted, I recall that the members of these committees discussed various forms of credit support/enhancement and acknowledged that substance was more important than form. For this reason, we believe that these NAIC working groups intended that, under circumstances similar to those at hand, a total return swap with the characteristics of the MGT TR Swap, which operated to completely fund the payment of principal and interest on the ZSLM Notes, would be sufficient to satisfy the requirement inherent in RCW 48.13.050(1).

In our discussion, you noted that the Offering Supplement to the Offering Memorandum for the Notes provides that:

“Neither the 2000-A Notes nor the 2000-A Certificates represent an obligation of, or are insured or guaranteed by, J.P. Morgan Securities Inc. (“JPMSI”), the Owner Trustee, the Indenture Trustee, J.P. Morgan & Co. Incorporated (“J.P. Morgan”) or any of their respective affiliates.”

Because Morgan Guaranty is affiliated with J.P. Morgan, we can appreciate how this provision might raise some questions in the context of your analysis. You should note, however, that such language was presented on the cover page of the Offering Supplement to clarify for investors that they have no direct recourse against J.P. Morgan or any of its affiliates (including Morgan Guaranty), in the event that the issuer (ZSLM Trust) was unable to make principal or interest payments on the Notes. Instead, an investor must rely solely on the payments that ZSLM Trust receives under the MGT TR Swap, with such rights being enforced by or through the indenture trustee. This distinction has legal significance in the capital markets, highlighting the distinction between (i) an “insured” or “wrapped” offering, where a financial guarantor (typically, a mono-line financial guaranty insurer – e.g., MBIA, AMBAC, etc.) will pay amounts due under debt instruments in the event that the issuer does not pay, and (ii) an offering of “uninsured” asset-backed securities, where investors can look only to the assets held by the issuer for payment under the subject debt instrument (in this case, the MGT TR Swap). In the latter instance, if such assets prove to be insufficient, investors have no direct recourse against any party other than the issuer. In this regard, in the context of the Notes, the MGT TR Swap is guaranteeing the cash flows underlying ZSLM Trust’s principal and interest payment obligations, even though the Notes themselves are not insured or wrapped by a financial guaranty.

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With respect to the character and function of the MGT TR Swap, Morgan Guaranty's obligations are absolute and unconditional, just like more traditional financial guarantees. In this regard, Section 8. of the MGT TR Swap expressly provides that "Morgan [Guaranty] shall be obligated to make the payments... notwithstanding that [ZSLM Trust] has not actually received or paid to Morgan [Guaranty]...". Further, ZSLM Trust's rights under the MGT TR Swap are pledged to the indenture trustee for the benefit of Farmers and the other Note holders. To this end, page 11 of the Offering Supplement contains the following language:

"The Swap Agreement will be assigned and pledged by the Trust to the Indenture Trustee pursuant to the Indenture and will secure the Trust's obligations to the holders of the 2000-A Notes."

Similarly, Granting Clauses of the Trust Indenture sets forth the following language:

"The Issuer hereby Grants to the Indenture Trustee at the Closing Date, as trustee for the benefit of the Noteholders...all of the Issuer's right, title and interest, whether now owned or hereafter acquired, in, to and under (a) the Swap Agreement and all amounts payable under the Swap Agreement...the Issuer hereby assigns to the Indenture Trustee, at the Closing Date, all of its rights under the Swap Agreement and the Swap Transactions and all amounts payable under the Swap Agreement. The Grant made in the first paragraph of these Granting Clauses is made in trust (as described above) to secure the payment of principal of and interest on, and any other amounts owing in respect of the Notes."

In addition to the grant to the Indenture Trustee that directly redounds to the benefit of the Noteholders, the Issuer has granted to the Indenture Trustee and perfected a security interest in the MGT TR Swap. Section 3.17 of the Trust Indenture states:

"The Issuer hereby represents and warrants to the Indenture Trustee that the Issuer has caused the Indenture Trustee to have a perfected security interest valid against third parties in the Swap Agreement."

As we discussed by telephone, when Standard & Poors rated the Notes, it was clear that its rating was based on the creditworthiness of Morgan Guaranty and the existence of the MGT TR Swap.

The above provisions clearly indicate that Morgan Guaranty will fund, on an absolute, unconditional and fully secured basis, all amounts necessary to pay principal and interest on the Notes, which is the functional equivalent of a "guarantee" at to ZSLM Trust level. From a financial and functional standpoint, there is no substantive difference between the MGT

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TR Swap and a guarantee.¹ As such, the Notes should qualify within RCW 48.13.050(1). Of course, if you have any questions or if we can provide you with any additional information, please do not hesitate to call me.

Very truly yours,



Michael P. Goldman

cc: James DeNicholas
Doren Hohl
Laszlo Heredy
Oscar Tengtio
Joann Bronson
LeeAnn Badgett
Cecelia Reyes
Deborah Cotton

¹ Several sources of publicly available information indicate that, in capital markets transactions, a variety of guarantee-like instruments are in use and are recognized to provide the same protection as a corporate guarantee. First, U.S. Treasury Regulation §1.148-4(f)(3) includes rules for determining the yield on certain issues of tax-exempt bonds, and includes rules regarding "qualified guarantees," one of the requirements for which is that the instrument be a "guarantee in substance." The Regulation states, in pertinent part, as follows: A qualified guarantee "must create a guarantee in substance. The arrangement must impose secondary liability that unconditionally shifts substantially all of the credit risk for all or part of the payments for principal and interest, redemption prices, or tender prices, on the guaranteed bonds. ... The guarantee may be in any form." Thus, we note that the Internal Revenue Service of the U.S. Treasury Department recognizes that an instrument may be a "guarantee" even though not labeled as such. See also, Federal Deposit Insurance Corporation, August 19, 1996 Financial Institution Letter issuing guidance to examiners regarding review of banks that are issuers of credit derivatives, including credit default swaps and total return swaps. In pertinent part, the following language appears: "In reviewing credit derivatives, examiners should consider the credit risk associated with the reference asset as the primary risk, as they do for loan participations or guarantees. ... Thus, for supervisory purposes, the exposure generally should be treated as if it were a letter of credit or other off-balance sheet guarantee." FIL-62-96, ¶3.

December 19, 2000

ZSLM Trust 2000-A
c/o Wilmington Trust Company,
as Owner Trustee
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890-0001

Attention: Corporate Trust Department

Re: Confirmation of Swap Transaction—ZSLM Trust Class A-1 Notes 2000-
A

The purpose of this letter is to confirm the terms and conditions of the Swap Transaction entered into between us as of December 19, 2000 (the "Swap Transaction").

This letter constitutes a "Confirmation" as referred to in the Interest Rate and Currency Exchange Agreement entered into between us and dated as of December 19, 2000 (the "Swap Agreement") and incorporates by reference the 1991 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "1991 Definitions").

This Confirmation supplements, forms a part of, and is subject to, the Swap Agreement. All provisions set forth in the 1991 Definitions or contained or incorporated by reference in the Swap Agreement shall govern this Confirmation except as expressly modified below. It is our intention to have this Confirmation serve as the final documentation for this trade and accordingly, no letter Confirmation will follow.

This Confirmation will be governed by and construed in accordance with the laws of the State of New York, without reference to choice of law doctrine.

The terms of the Swap Transaction to which this Confirmation relates are as follows:

1. Parties

The parties are:

- (1) MORGAN GUARANTY TRUST COMPANY OF NEW YORK ("Morgan")

Office through which this Swap Transaction is booked and address for notices:

INSTR #5B

Morgan Guaranty Trust Company of New York
60 Wall Street
New York, New York 10260
Attention: Global Swaps Unit
Telex: WUD 649216
Answerback: MGT UI
Telecopy No.: (212) 837-5922

Account for
Payments: Morgan Guaranty Trust Company of
New York
ABA No. 021 000 238
Account No. 600 25 420
Account Name: JPMWI Equity Swaps
Reference: ZSLM Trust 2000-A

(2) ZSLM TRUST 2000-A (the "Counterparty")

Office through which this Swap Transaction is booked and address for notices:

Wilmington Trust Company,
as Owner Trustee for ZSLM Trust 2000-A
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890-0001
Attention: Corporate Trust Administration
John M. Beeson, Jr.
Telecopy No.: (302) 651-8882

Account for
Payments: First Union National Bank
Charlotte, North Carolina
ABA#: 053000219
Account: ZSLM Trust 2000-A Collection Account
Account #: [•]
Attn: Melissa Matthews

2. Payments.

(a) On the final Payment Date, (i) the Counterparty shall direct, pay or cause to be paid to Morgan, to the extent received, an amount in U.S. Dollars equal to the Class A-1 Notes Share of the Securities Value and (ii) Morgan shall pay to the Counterparty an amount in U.S. Dollars equal to the Class A-1 Notes Amount plus the Certificate Amount.

(b) On each Payment Date, Morgan shall pay to the Counterparty a Fixed Amount in U.S. Dollars computed in accordance with Section 5.1 of the 1991 Definitions as follows:

(i) "Calculation Amount" means the Class A-1 Notes Amount;

(ii) "Fixed Rate" means 6.62% per annum; and

(v) "Fixed Rate Day Count Fraction" means 180/360.

(c) Upon the receipt by the Counterparty of any amounts representing interest, dividends or other periodic payments of a similar nature received in respect of the Portfolio Basket, the Counterparty shall pay to Morgan an amount equal to the Class A-1 Notes Share of such amounts.

(d) On the Effective Date, the Counterparty shall pay to Morgan an amount equal to U.S.\$550.00. For the purposes of this Section 2(d) only, the Account for Payments shall be:

Morgan Guaranty Trust Company of
New York
ABA No. 021 000 238
Account No. [•]
Account Name: [•]
Reference: ZSLM Trust 2000-A

3. Definitions.

In this Confirmation:

"Calculation Agent" means Morgan. All determinations and calculations by the Calculation Agent shall (a) be made in good faith and in the exercise of its commercially reasonable judgment and (b) be determined, where applicable, on the basis of then prevailing market rates or prices. All such determinations and calculations shall be binding on the Counterparty in the absence of manifest error.

"Certificates" means the ZSLM Trust 2000-A Voting Certificates issued by the ZSLM Trust 2000-A pursuant to the Trust Agreement.

"Certificate Amount" means U.S.\$1,000.

"Class" means a class of Notes with only such rights distinguished by Class as set forth in the Indenture.

"Class A-1 Notes Amount" means \$330,000,000.

"Class A-1 Notes Share" means a percentage equal to the Class A-1 Notes Amount divided by the Notes Amount.

"Class A-2 Notes Amount" means \$0.

"Custody Agreement" means the Custody Agreement dated as of December 19, 2000 between the ZSLM Trust 2000-A and The Bank of New York, as Custodian (the

“Custodian”) and agreed and accepted by Morgan or the Investment Manager (if any, and as such term is defined in the Trust Agreement), as the case may be.

“Effective Date” means December 20, 2000.

“Final Swap Counterparty Exchange Date” means the Swap Counterparty Exchange Date on which all remaining outstanding Class A-1 Notes shall be exchanged.

“Indenture” means the Indenture dated as of December 19, 2000 between the ZSLM Trust 2000-A, as Issuer and the Indenture Trustee.

“Indenture Trustee” means First Union National Bank or such other entity identified in an Offering Supplement as the Indenture Trustee.

“Notes” means the ZSLM Trust Notes 2000-A issued by the Counterparty pursuant to the Indenture.

“Notes Amount” means U.S.\$330,000,000.

“Notes Share” means a percentage equal to the Notes Amount divided by the Total Securities Amount.

“Owner Trustee” means Wilmington Trust Company or such other entity identified in an Offering Supplement, not in its individual capacity but solely as the Owner Trustee.

“Payment Dates” means semiannually on the 20th day of June and December, commencing on June 20, 2001 and ending on December 20, 2007, subject to the Modified Following Business Day Convention.

“Redemption Date” means the date specified in the Redemption Feature Notice.

“Redemption Feature Notice” means the notice delivered pursuant to Section 2.18 of the Indenture, substantially in the form of Annex A hereto.

“Securities Value” means, with respect to the Termination Date, the amount, calculated on the Termination Date, equal to the sum of (a) all cash held by the Indenture Trustee pursuant to the Indenture (not including any amounts paid by Morgan hereunder with respect to the Termination Date) and (b) the aggregate proceeds of all property held pursuant to either the Custody Agreement or the Trust Agreement (including any fees generated by any securities lending activities) and sold pursuant to Section 11.3 of the Indenture on or prior to the Termination Date plus the proceeds of any sale of property held pursuant to the Custody Agreement which is executed with respect to the Termination Date after the Termination Date. For the purposes of the foregoing and Section 2(a)(i) hereof, if any such proceeds of any sale executed with respect to the Termination Date or any dividends in respect of the property and sold with respect to the Termination Date held by the Indenture Trustee are received by the Indenture Trustee

after the Termination Date, the Counterparty shall pay or cause to be paid such proceeds to Morgan upon receipt thereof.

“Swap Counterparty Exchange Date” means the date specified in the Swap Counterparty Exchange Notice.

“Swap Counterparty Exchange Notice” means the notice delivered pursuant to Section 2.13 of the Indenture, substantially in the form of Annex B hereto.

“Swap Counterparty Letter Agreement” means the letter agreement dated as of December 19, 2000, from Morgan to, and agreed and accepted by the Owner Trustee and Indenture Trustee.

“Termination Date” means December 20, 2007, the Redemption Date, if any, or the Final Swap Counterparty Exchange Date, if any, subject to adjustment in accordance with Modified Following Business Day Convention, with no adjustment of Period End Dates.

“Trust Agreement” means the Amended and Restated Trust Agreement dated as of December 19, 2000 by and among Wilmington Trust Company, as Owner Trustee, and J.P. Morgan Securities, Inc.

“ZSLM Trust 2000-A” means the trust established pursuant to the Trust Agreement.

4. In-Kind Distribution. In the event of an exchange of Notes for an in-kind distribution of the relevant portion of the Portfolio Basket pursuant to a Redemption Feature Notice or a Swap Counterparty Exchange Notice, then, on the corresponding Redemption Date or Swap Counterparty Exchange Date, as appropriate, the Class A-1 Notes Amount and the Class A-2 Notes Amount shall be reduced in accordance with the principal amount of each Class of Note being so exchanged. Also on such Redemption Date or Swap Counterparty Exchange Date, the Notes Amount shall be reduced by an amount equal to the principal amount of either Class of Note being so exchanged.
5. Early Termination. This Swap Transaction shall be terminated when, after giving effect to a Redemption Date or Final Swap Counterparty Exchange Date, the Class A-1 Notes Amount and the Class A-2 Notes Amount both equal zero. As part of such a termination, Morgan shall pay the Certificates Amount to the Counterparty. Any portion of the Portfolio Basket remaining on such Redemption Date or Final Swap Counterparty Exchange Date shall be delivered by the Counterparty to Morgan.
6. Swap Counterparty Letter Agreement. Simultaneously with entering into this Swap Transaction, Morgan shall enter into the Swap Counterparty Letter Agreement.
7. Business Day. As used herein, “Business Day” means a day on which banks are open for business in New York other than a Saturday or a Sunday.

8. Morgan's Obligations Absolute. Morgan shall be obligated to make the payments specified in Sections 2(a)(ii) and 2(b) of this Confirmation notwithstanding that the Counterparty has not actually received or paid to Morgan any Securities Value pursuant to Section 2(a)(i) or any amount pursuant to Section 2(c).

9. Amendments. (i) No amendment hereto will be effective unless Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. has confirmed in writing that such amendment shall not adversely affect the rating on the Notes; and (ii) any amendment, modification or waiver relating to the currency to be used for payments hereunder, the amounts to be paid by Morgan hereunder and the dates on which such payments are to be made by Morgan, will not be effective unless consented to in writing by all the holders of the Notes, Morgan and the Counterparty.

10. Owner Trustee. The parties hereto agree that Wilmington Trust Company is executing this Confirmation not in its individual capacity but solely as Owner Trustee under the Trust Agreement and accordingly, shall incur no personal liability in connection herewith or the transactions contemplated hereby.

Please confirm your agreement to be bound by the terms of the foregoing by executing the copy of this Confirmation enclosed for that purpose and returning it to us.

Very truly yours,

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By: _____
Name:
Title:

Accepted and confirmed as of
the date first above written

ZSLM TRUST 2000-A
By:

WILMINGTON TRUST COMPANY,
not in its individual capacity but solely
as Owner Trustee of ZSLM Trust 2000-A

By: _____
Name:
Title:

**GLOBAL CUSTODY RIDER
TO
DOMESTIC CUSTODY AGREEMENT
BETWEEN
JPMORGAN CHASE BANK
AND
FARMERS NEW WORLD LIFE INSURANCE COMPANY**

GLOBAL CUSTODY RIDER
TO
DOMESTIC CUSTODY AGREEMENT

1. INTENTION OF THE PARTIES; DEFINITIONS

1.1 Intention of the Parties.

(a) This Rider together with the Domestic Custody Agreement sets out the terms governing the custody, settlement and certain associated services offered by Bank with respect to Global Securities (i.e. Securities other than U.S. Securities, which are governed exclusively by the terms of the Domestic Custody Agreement). To the extent there are any inconsistencies between the terms of the Domestic Custody Agreement and the terms of this Rider, the terms of this Rider shall govern.

(b) Investing in foreign markets may be a risky enterprise. The holding of Financial Assets and cash in foreign jurisdictions may involve risks of loss or other special features. Bank will not be liable for any loss that results from the general risks of investing or Country Risk.

1.2 Definitions.

All capitalized terms used in this Rider unless defined herein shall have the meanings given to such terms as set forth in the Domestic Custody Agreement.

“Affiliated Subcustodian” means a Subcustodian that is an Affiliate.

“Bank” means JPMorgan Chase Bank (f/k/a/ The Chase Manhattan Bank).

“Bank’s London Branch” means the London branch office of JPMorgan Chaser Bank.

“Country Risk” means the risk of investing or holding assets in a particular country or market, including, but not limited to, risks arising from; nationalization, expropriation or other governmental actions; the country’s financial infrastructure including prevailing custody and settlement practices, laws applicable to the safekeeping and recovery of Financial Assets and cash held in custody; regulation of banking and securities industries, including changes in market rules; currency restrictions, devaluations or fluctuations; and market conditions affecting the orderly execution of securities transactions or the value of assets.

“Customer” means Farmers New World Life Insurance Company.

“Domestic Custody Agreement” or “DCA” means the Domestic Custody Agreement between Bank and Customer.

“Financial Assets” as used in this Rider shall relate exclusively to Global Securities.

“Global Securities” has the meaning as set forth in paragraph (a) of Section 1.1 of this Rider.

“Subcustodian” has the meaning set forth in Section 5.1 of this Rider and includes Affiliated Subcustodians. Subcustodians are Securities Intermediaries. Bank Indemnitees shall include Subcustodians and their nominees, directors, officers, employees and agents.

2. WHAT THE BANK IS REQUIRED TO DO

2.1 Cash Accounts.

(a) For the purpose of this Rider, Cash Accounts mean one or more deposit accounts in any currency in the name of Customer at Bank’s London Branch. Any cash so deposited with Bank’s London Branch shall be payable exclusively by Bank’s London Branch in the applicable currency, subject to compliance with any applicable laws, regulations, governmental decrees or similar orders.

(b) Notwithstanding paragraph (a) hereof, cash held in respect of those markets where Customer is required to have a cash account in its own name held directly with the relevant Subcustodian will be held in that manner and will not be part of the Cash Account.

2.2 Segregation of Assets; Nominee Name.

(a) To the extent permitted by Applicable Law or market practice, Bank will require each Subcustodian to identify in its own records that Financial Assets credited to Customer’s Securities Account belong to customers of Bank, such that it is readily apparent that the Financial Assets do not belong to Bank or Subcustodian.

(b) Bank and Subcustodian are authorized to register in the name of Subcustodian such Financial Assets as are customarily held in registered form. Customer authorizes Bank or its Subcustodian to hold Financial Assets in omnibus accounts and will accept delivery of Financial Assets of the same class and denomination as those deposited with Bank or its Subcustodian.

2.3 Income Collection; Autocredit.

Bank shall provide income collection and autocredit service for Global Securities as set forth in Section 2.7 of the DCA, but neither Bank nor its Subcustodians shall be obligated to file any formal notice of default, institute legal proceedings, file proof of claim in any insolvency proceeding, or take any similar action in respect of any Global Securities.

2.4 Contractual Settlement Date Accounting.

(a) Bank will effect book entries on a "contractual settlement date accounting" basis as described in Section 2.5 of the DCA with respect to the settlement of trades in those markets where Bank generally offers contractual settlement date accounting and will notify Customer of those markets from time to time.

(b) With respect to any sale or purchase transaction that is not posted to the Account on the contractual settlement date as referred to in Section 2.4(a) above, Bank will post the transaction on the date on which the cash or Financial Assets received as consideration for the transaction is actually received by Bank.

2.5 Proxy Voting with respect to Global Securities.

(a) Subject to and upon the terms of this sub-section, Bank will provide Customer with information which it receives on matters to be voted upon at meetings of holders of Financial Assets ("Notifications"), and Bank will act in accordance with Customer's Instructions in relation to such Notifications ("the active proxy voting service"). If information is received by Bank at its proxy voting department too late to permit timely voting by Customer, Bank's only obligation is to provide, so far as reasonably practicable, a Notification (or summary information concerning a Notification) on an "information only" basis.

(b) The active proxy voting service is available only in certain markets, details of which are available from Bank on request. Provision of the active proxy voting service is conditional upon receipt by Bank of a duly completed enrollment form as well as additional documentation that may be required for certain markets.

(c) Bank will act upon Instructions to vote on matters referred to in a Notification, provided Instructions are received by Bank at its proxy voting department by the deadline referred to in the relevant Notification. If Instructions are not received in a timely manner, Bank will not be obligated to provide further notice to Customer.

(d) Bank reserves the right to provide Notifications or parts thereof in the language received. Bank will attempt in good faith to provide accurate and complete Notifications, whether or not translated.

(e) Customer acknowledges that Notifications and other information furnished pursuant to the active proxy voting service ("information") are proprietary to Bank and that Bank

owns all intellectual property rights, including copyrights and patents, embodied therein. Accordingly, Customer will not make any use of such information except in connection with the active proxy voting service.

(f) In markets where the active proxy voting service is not available or where Bank has not received a duly completed enrollment form or other relevant documentation, Bank will not provide Notifications to Customer but will endeavor to act upon Instructions to vote on matters before meetings of holders of Financial Assets where it is reasonably practicable for Bank (or its Subcustodians or nominees as the case may be) to do so and where such Instructions are received in time for Bank to take timely action (the “passive proxy voting service”).

(g) Customer acknowledges that the provision of proxy voting services (whether active or passive) may be precluded or restricted under a variety of circumstances. These circumstances include, but are not limited to: (i) the Financial Assets being on loan or out for registration; (ii) the pendency of conversion or another corporate action; (iii) Financial Assets being held at Customer's request in a name not subject to the control of Bank or its Subcustodian (iv) Financial Assets held in a margin or collateral account at Bank or another bank or broker, or otherwise in a manner which affects voting; (v) local market regulations or practices, or restrictions by the issuer, and (vi) Bank may be required to vote all shares held for a particular issue for all of Bank's customers on a net basis (i.e. a net yes or no vote based on voting instructions received from all its customers). Where this is the case, Bank will inform Customer by means of the Notification.

(h) Notwithstanding the fact that Bank may act in a fiduciary capacity with respect to Customer under other agreements or otherwise hereunder, in performing active or passive voting proxy services Bank will be acting solely as the agent of Customer, and will not exercise any discretion with regard to such proxy services or vote any proxy except when directed by an Authorized Person.

2.6 Access to Subcustodian's Records.

Subject to restrictions under Applicable Law, Bank will obtain an undertaking to permit Customer's independent public accountants reasonable access to the records of any Subcustodian in respect of any Financial Assets credited to the Securities Account as may be required in connection with such examination.

2.7 Maintenance of Financial Assets at Subcustodian Locations.

(a) Unless Instructions (as detailed in Article 3 entitled “Instructions” of the DCA) require another location acceptable to Bank, Financial Assets will be held in the country or jurisdiction in which their principal trading market is located, where such Financial Assets may be presented for payment, where such Financial Assets were acquired, or where such Financial Assets are held. Bank reserves the right to refuse to accept delivery of Financial Assets or cash in countries and jurisdictions other than those referred to in Schedule 1 to this Agreement, as in effect from time to time.

(b) Bank will not be obliged to follow an Instruction to hold Financial Assets with, or have them registered or recorded in the name of, any person not chosen by Bank. However, if Customer does instruct Bank to hold Global Securities with or register or record Global Securities in the name of a person not chosen by Bank, the consequences of doing so are at Customer's own risk and Bank will not be liable therefor.

2.8 Tax Reclaims.

Bank will provide for Global Securities as set forth in Section 8.2 of the DCA, the same tax reclamation services that Bank provides for American Depositary Receipts.

2.9 Foreign Exchange Transactions.

To facilitate the administration of Customer's trading and investment activity, Bank may, but will not be obliged to, enter into spot or forward foreign exchange contracts with Customer, or an Authorized Person, and may also provide foreign exchange contracts and facilities through its Affiliates or Subcustodians. Instructions, including standing instructions, may be issued with respect to such contracts, but Bank may establish rules or limitations concerning any foreign exchange facility made available. In all cases where Bank, its Affiliates or Subcustodians enter into a master foreign exchange contract that covers foreign exchange transactions for the Accounts, the terms and conditions of that foreign exchange contract and, to the extent not inconsistent, this Agreement, will apply to such transactions.

3. INSTRUCTIONS

Bank will act upon all Instructions received from Customer with respect to the Financial Assets and cash for the Accounts in accordance with Article 3 of the DCA and this Rider.

4. FEES EXPENSES AND OTHER AMOUNTS OWING TO BANK

4.1 Fees and Expenses.

Customer will pay Bank for its services hereunder the fees set forth in Schedule B hereto or such other amounts as may be agreed upon in writing from time to time, together with Bank's reasonable out-of-pocket or incidental expenses, including, but not limited to, legal fees. Customer authorizes Bank to charge any Cash Accounts, for any such fees or expenses.

4.2 Overdrafts.

If a debit to any currency in the Cash Account results (or will result) in a debit balance in that currency, then Bank may, in its discretion, (i) advance an amount equal to the overdraft, (ii) or reject the settlement in whole or in any part, or (iii) if posted to the Securities Account, reverse the posting of the Financial Assets credited to the Securities Account. If Bank elects to make such an

advance, the advance will be deemed a loan to Customer, payable on demand, bearing interest at the rate charged by Bank from time to time, for overdrafts incurred by customers similar to Customer, from the date of such advance to the date of payment (both after as well as before judgment) and otherwise on the terms on which Bank makes similar overdrafts available from time to time. No prior action or course of dealing on Bank's part with respect to the settlement of transactions on Customer's behalf will be asserted by Customer against Bank for Bank's refusal to make advances to the Cash Account or to settle any transaction for which Customer does not have sufficient available funds in the Account.

5. SUBCUSTODIANS

5.1 Appointment of Subcustodians.

(a) Bank is authorized under this Rider to act through and hold Customer's Financial Assets with subcustodians, being at the date of this Rider the entities listed in Schedule 1 and/or such other entities as Bank may appoint as subcustodians ("Subcustodians"). Bank will use reasonable care in the selection and continued appointment of such Subcustodians. In addition, Bank and each Subcustodian may deposit Financial Assets with, and hold Financial Assets in, any Securities Depository on such terms as such systems customarily operate and Customer will provide Bank with such documentation or acknowledgements that Bank may require to hold the Financial Assets in such systems.

(b) Any agreement Bank enters into with a Subcustodian for holding Bank's customers' assets will provide that such assets will not be subject to any right, charge, security interest, lien or claim of any kind in favor of such Subcustodian except for safe custody or administration, and, in the case of Financial Assets, that beneficial ownership will be freely transferable without the payment of money or value other than for safe custody or administration. Where a Subcustodian deposits Securities with a Securities Depository, Bank will cause the Subcustodian to identify on its records as belonging to Bank, as agent, the Securities shown on the Subcustodian's account at such Securities Depository. The foregoing will not apply to the extent of any special agreement or arrangement made by Customer with any particular Subcustodian.

5.2 Liability of Subcustodians.

(a) Subject to the limitations of liability of Bank set forth in Paragraph (c) of Section 7.1 of the DCA, but exclusive of the limitations of liability in respect of Agents as set forth in Section 5.2 of the DCA, Bank will be liable for direct losses incurred by Customer that result from:

- (i) the failure by the Subcustodian to use reasonable care in the provision of custodial services by it in accordance with the standards prevailing in the relevant market or from the fraud or willful default of such Subcustodian in the provision of custodial services by it; or
- (ii) the insolvency of any Affiliated Subcustodian.

(b) Subject to paragraph (a)(i) of Section 5.2 of this Rider and Bank's duty to use reasonable care in the monitoring of a Subcustodian's financial condition as reflected in its published financial statements and other publicly available financial information concerning it, Bank will not be responsible for the insolvency of any Subcustodian which is not a branch or an Affiliated Subcustodian.

(c) Bank reserves the right to add, replace or remove Subcustodians. Bank will give prompt notice of any such action, which will be advance notice if practicable. Upon request by Customer, Bank will identify the name, address and principal place of business of any Subcustodian and the name and address of the governmental agency or other regulatory authority that supervises or regulates such Subcustodian.

6. WHEN BANK IS LIABLE TO CUSTOMER

Bank shall be entitled to all the protective provisions of Article 7 of the DCA in the performance of its duties and obligations under this Rider. Subcustodians shall be entitled to indemnification under paragraph (d) of Section 7.1 as Bank Indemnitees. Nevertheless Customer shall not be obligated to indemnify any Subcustodian under Section 7.1(d) as Bank's agent with respect to any Liability for which Bank is liable under Section 5.2 of the DCA.

7. ADDITIONAL TAX OBLIGATIONS

Customer will provide to Bank such certifications, documentation, and information as it may require in connection with taxation, and warrants that, when given, this information is true and correct in every respect, not misleading in any way, and contains all material information. Customer undertakes to notify Bank immediately if any information requires updating or correcting.

8. MISCELLANEOUS

8.1 Information Concerning Deposits at Bank's London Branch.

Under U.S federal law, deposit accounts that Customer maintains in Bank's foreign branches (outside of the U.S.) are not insured by the Federal Deposit Insurance Corporation ("FDIC"); in the event of Bank's liquidation, foreign branch deposits have a lesser preference than U.S. deposits; and such foreign deposits are subject to cross-border risks. However, Bank's London Branch is a member of the United Kingdom Deposit Protection Scheme (the "Scheme") established under Banking Act 1987 (as amended). The Scheme provides that in the event of Bank's insolvency payments may be made to certain customers of Bank's London Branch. Payments under the Scheme are limited to 90% of a depositor's total cash deposits subject to a maximum payment to any one depositor of £18,000 (or 20,000 euros if greater). Most deposits

denominated in sterling and other European Economic Area Currencies and euros made with Bank within the United Kingdom are covered. Further details of the Scheme are available on request.

8.2 Severability and Waiver.

(a) If one or more provisions of this Rider are held invalid, illegal or unenforceable in any respect on the basis of any particular circumstances or in any jurisdiction, the validity, legality and enforceability of such provision or provisions under other circumstances or in other jurisdictions and of the remaining provisions will not in any way be affected or impaired.

(b) Except as otherwise provided herein, no failure or delay on the part of either party in exercising any power or right hereunder operates as a waiver, nor does any single or partial exercise of any power or right preclude any other or further exercise, or the exercise of any other power or right. No waiver by a party of any provision of this Rider, or waiver of any breach or default, is effective unless in writing and signed by the party against whom the waiver is to be enforced.

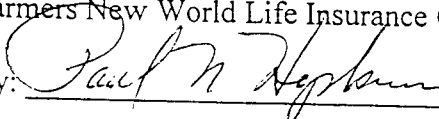
8.3 Sections Incorporated by Reference.

For the avoidance of doubt, the entire Article 10 of the DCA is incorporated by reference into this Rider. All references to "Agreement" therein shall be read to include "Rider".

8.4 Termination.

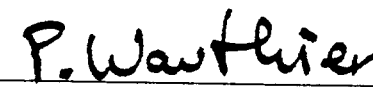
This Rider may be terminated by either party on 60 days written notice to the other party. This Rider shall automatically terminate with the termination of the DCA. Article 9 of the DCA, to the extent applicable, shall apply to any such termination of this Rider.

Farmers New World Life Insurance Company (Customer)

By: 

Title: Member of CEC, Farmers Group, Inc.

Date: May 27, 2003


By: 

Title: Member of CEC, Farmers Group, Inc.

Date: May 27, 2003

JPMORGAN CHASE BANK (Bank)

By: 

Title:  Vice President

Date: 5/28/03